

*Other Accompanying Information*  
**Management Response**

---



**Denali Commission**  
510 L Street, Suite 410  
Anchorage, AK 99501

907.271.1414 *tel*  
907.271.1415 *fax*  
888.480.4321 *toll free*  
[www.denali.gov](http://www.denali.gov)

November 15, 2007

MEMORANDUM – RESPONSE TO CHALLENGES

From: George J. Cannelos  
Federal Co-Chair

Subject: Management Response to Inspector General Challenges

The Denali Commission’s Inspector General has written a thoughtful analysis of “Management and Performance Challenges Facing the Denali Commission”. He organizes his remarks around important factors the GAO is now using to review the governance structure of small federal agencies, including the Commission.

We are pleased the GAO is undertaking their analysis and look forward to responding to their initiative as appropriate. We have invited them to present their progress to our next Financial Management Advisory Committee meeting in Washington DC in December.

**Role of Multi-person Board in Agency Governance**

Mr. Marsh speaks to the differences between the Denali Commission and the Appalachian Regional Commission, and notes that ARC splits the cost of administration with their 13 member states, while “Denali does not”. While technically true, this statement masks the very strong federal-state partnership that is a hallmark of the Denali Commission’s success.

Instead of splitting administrative costs, the State of Alaska provides two detailed employees and pays for their salary and benefits. The Governor’s office provides a full-time liaison, while the State Legislature details a legislative liaison. In addition, the state Department of Commerce, Community & Economic Development announced they will shortly be designating a representative from their department to work at the commission.

Commissioners also recognize the tangible improvement in the strength of the federal-state partnership since Governor Palin took office last January. For the first time in the commission’s eight-year existence, the State of Alaska included funding (\$7.1 million) for the Denali Commission and our programs in the state’s Capital Budget. In addition, the State Office of Management & Budget compared state vs. Denali Commission



### *Other Accompanying Information*

### **Management Response**

---

MEMORANDUM – RESPONSE TO CHALLENGES  
November 15, 2007

investments into rural Alaska over the past three years. Their conclusion – the State is outspending the commission by three to one. Also in October, the Federal and State Co-Chairs visited federal OMB, our congressional delegation, the Governor’s Washington DC office and the Appalachian Regional Commission. These visits emphasized the strong partnership between the State of Alaska and the Denali Commission.

#### **Ethics Regulation and Training**

I concur with the IG’s comments. The Denali Commission has been aggressively conducting public accountability training and will continue to do so.

#### **Audit Committee**

We are pleased to be in the lead among small federal agencies in establishing our Financial Management Advisory Committee. With two members based in the Washington DC area, we are successfully using video-teleconferencing to conduct our business.

#### **Annual Financial Audit**

The IG’s comments are worth repeating: “The Denali Commission appears to be the only civilian federal agency that is participating in all three of the following volunteer initiatives related to the PAR: (1) OMB’s PAR “pilot project” for user friendly reporting; (2) the CEAR review by an expert panel from the Association of Government Accountants (AGA); (3) the AGA “citizen centric” reporting project for succinctly briefing the public.”

#### **Transparency Statutes: GISA, FOIA, APA**

Concur

#### **Federal Spending Controls**

Concur

#### **Quality of Grantee’s Single Audits**

Concur that grantees’ single audits often do not examine Denali Commission Funding.

#### **Program Performance Evaluation and Reporting**

Mr. Marsh correctly points out the most significant gap in our performance – the lack of an agency-wide systematic approach for evaluating and reporting the impact’s of our programs and projects. To begin this process, the Denali Commission (through the Bureau of Public Debt) solicited proposals in 2006 from qualified firms nationwide to



**Other Accompanying Information**  
**Management Response**

---

MEMORANDUM – RESPONSE TO CHALLENGES  
November 15, 2007

conduct the first overall evaluation of the commission's work in Alaska. The McDowell Group completed this evaluation in August 2007. Among their key findings:

*The Denali Commission has been effective at establishing a substantial quantity of badly needed infrastructure in rural Alaska and is widely regarded as essential for that purpose*

*The work of the Denali Commission has resulted in improved access to healthcare for rural Alaskans, greater environmental safeguards around fuel storage, more efficient power generation, and a better-trained workforce that would have been the case in the absence of the Commission*

*A wide variety of tribal, non-profit and other service organizations around Alaska are stronger and more effective as a result of receiving Commission grants and of partnering with the Commission in carrying out its programs.*

*Leaders in most communities believe critical, local projects would not have been accomplished without the Denali Commission.*

*The Commission's role as an innovator and catalysts of rural development is highly valued by members of other agencies and by residents of affected communities.*

*Community leaders consider the Commission more flexible and responsive than other agencies.*

*The concept of "sustainability" has become a keystone of Denali Commission programs and has, in principle, widespread support.*

However, McDowell then addresses the issue at hand:

*The Commission's output performance indicators do not reflect the impact or "outcome" of the Commission's programs and policies on the sustainability of projects or the wellbeing of communities. With the exception of the Training Program, the Commission has not identified outcome performance measures.*

Establishing an appropriate system at the Denali Commission is a top priority for FY08. As noted earlier in the Management Discussion and Analysis, we are in the process of implementing three primary outcome measurements, across all programs, in terms of cost, quality and access. These measures provide an excellent beginning since they can be applied consistently across both infrastructure, training and economic development.



### *Other Accompanying Information*

### **Management Response**

---

MEMORANDUM – RESPONSE TO CHALLENGES  
November 15, 2007

We are currently comparing performance and evaluation models among federal agencies and non-governmental organizations that invest in both domestic rural development and developing countries. These include models at the Inter-American Foundation, the Millennium Challenge Corporation, and NGO's like Geneva Global and others.

Mr. Marsh then raises an “elephant in the room” topic – how should the Denali Commission approach investment in very small communities across Alaska? How do we reconcile the need for basic community infrastructure with the limitations of small communities to operate and maintain Denali Commission projects?

Alaska is in many ways defined by our special constellation of over 200 communities which are not part of the national or state highway system, nor connected to a regional power grid. These are remote, far-flung places scattered among the wilderness and wild spaces that also define Alaska.

I disagree with the IG's use of the term “micro-settlements” to describe these small villages. In most all cases, we're working government-to-government with federally-recognized tribes who have lived in the vicinity for hundreds and thousands of years. Each of these communities survives on a combination of a limited cash economy and a hunting, fishing and gathering culture (subsistence). Like small towns across America, some places are increasing in population; others are declining.

The Denali Commission's policies and practices take great care to ensure our programs and projects have the greatest chance of long-term success. Business plans are required, for example, in most cases, to demonstrate who will be responsible for operations and maintenance, where the funding will come from, and how the project will benefit local people. The sizes of our primary care clinics, for example, are specifically scaled to meet current and projected population growth or decline.

We work with all our partners to find innovative solutions to keep Alaska's small communities vital and healthy. For example, we have funded electrical interties and combined energy facilities for nearby villages, reducing duplication and redundancy. We are taking a lead role in Alaska in promoting and investing in alternative energy strategies to find answers to the unaffordable cost of diesel fuel.

#### **Independence of Inspector General Function**

Concur

#### **Core Competencies Justifying an Agency's Existence**

I believe there is no question the Denali Commission adds significant public value for the limited federal dollars received. Without the commission's giving strategic guidance, staff coordinating capital improvement efforts, convening inter-agency work groups, engaging competent partners, adopting innovative practices, focusing on sustainability





*Other Accompanying Information*

**Management Response**

---

MEMORANDUM – RESPONSE TO CHALLENGES  
November 15, 2007

and listening to local people, rural Alaskan communities would be deprived of vital basic infrastructure and training. Our strategic focus on replacing critical bulk fuel facilities, upgrading rural power plants and improving access to health care would likely not have happened without action by the Denali Commission.

Mr. Marsh is correct in characterizing our “Energy” program as “Rural Electrification”. By aggressively pursuing and co-funding demonstration projects in renewable and alternative energy, we seek the “tipping points” that will lower energy costs across Alaska to an acceptable long-term level.

By staying within our 5% overhead limitation, commission staff is compelled to work efficiently and creatively.

Lastly, Mr. Marsh has given our State Co-Chair Karen Rehfeld, the Director of the state’s Office of Management and Budget, an inaccurate, though laudable field promotion. He cites her background as the former Commissioner of Education, while in fact she served as that department’s Deputy Commissioner of Education & Early Development.

Sincerely,



George J. Canelos  
Federal Co-Chair  
Denali Commission

